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SUBJECT: OECD TECHNICAL WORKSHOP ON TRADE AND  
STRUCTURAL ADJUSTMENT

CONTAINS REPORT OF OECD MEETING -- NOT FOR INTERNET  
DISTRIBUTION.

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SUMMARY AND INTRODUCTION  
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1. On February 7, 2005, the Organization for Economic Cooperation and Development (OECD) held a technical workshop intended to seek advice from outside experts on its draft report on trade and structural adjustment. The paper is to be completed in time for the OECD Ministerial Council Meeting May 3-4, 2005. This report is intended to help Washington policymakers, in particular the Council of Economic Advisors and the Federal Reserve, frame their own thinking in preparation for the Economic Policy Committee meeting in April. End summary and introduction.

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MAKING THE MOST OUT OF CHANGE  
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2. On February 7, 2005, the Organization for Economic Cooperation and Development (OECD) held a technical workshop to discuss its draft study on trade and structural adjustment. The paper is to be completed by the time of the OECD Ministerial Council Meeting May 3-4, 2005. The Secretariat aims to develop a shorter booklet, approximately 20 pages, from key elements of the study, currently 329 pages including annexes in time for the Ministerial Council Meeting.

3. The study has been developed from a Swedish proposal at the OECD Ministerial Council Meeting in 2003. It aims to identify the requirements for successful trade-related structural adjustment via the reallocation of resources (human, physical and capital) to more efficient uses in response to the emergence of new sources of competition, technological change or shifting consumer preferences while limiting adjustment costs for individuals, communities and society as a whole.

4. With regard to best practices in the domestic policy setting, the draft recommends the promotion of macroeconomic stability, sound labor market policies, a sound regulatory and competition environment and a strong institutional and governance framework that will favor structural reform. On the international side, the OECD recommends the adoption of liberal trade policies. The OECD also recommends fostering bilateral and regional initiatives, noting that regulatory cooperation can foster opportunities through trade or ease adjustment strains in particular sectors as a complement to wider multilateral commitments. Finally, the paper recommends fostering multilateral cooperation in trade and finance, in capacity building, and in corporate responsibility and core labor standards.

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TOO MUCH EMPHASIS ON LABOR?  
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5. Bernard Hoekman of the World Bank noted that there was a heavy emphasis in the draft on the labor market, and wondered if more attention should not be paid to facilitating entry and exit of firms. He said that the role of access to credit was also under-emphasized. With regard to trade, he pointed out that developing countries had become heavy users of anti-dumping remedies. This, and the rise of non-tariff barriers, was masking the failure to liberalize -- it

is difficult to ensure that trade policy has changed in reality, or whether the rules have simply shifted.

16. Mr. Hoeckman also expressed surprise at the relatively favorable view in the report of export subsidies, which he characterized as anathema to economists. He mentioned in particular the treatment of South Africa's Motor Industry Development Program (MIDP). Note: By comparison, the December 2004 IMF Article IV survey of South Africa said that "the financial structure of the MIDP was complicated and appeared to involve a combination of export subsidies and heightened protection for domestic production. The cost in terms of forgone fiscal revenue may be considerable." End note. Hoeckman said that if the OECD did want to retain its somewhat more favorable view of export subsidies, it would require more explanation.

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DENMARK AS ROLE MODEL  
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17. Duncan Campbell of the International Labor Organization (ILO) suggested that aid should be used to help less developed countries to accept and adjust under trade liberalization. He cited Denmark as an appropriate model which combined efficient micro-level flexibility with a good system of social security. Denmark, he said, has generous unemployment benefits but with a clearly defined end-point to make sure people do not remain permanently unemployed. As a result, polls show that the sense of employment security is highest in Denmark, not because people are sure that they will have the same job ten years from now, but that they will have a job. With regard to sequencing of reform, Mr. Campbell cited research findings that trade liberalization which was preceded by the establishment of core labor standards and freedom of association are generally more successful.

18. Howard Rosen of the U.S. Trade Adjustment Assistance Coalition said that the OECD draft missed the point: structural adjustment is supposed to be a means towards the end of achieving higher wages and better standards of living, not shrinking industries. He said that most countries were not putting enough emphasis on prospective employment to absorb redundant labor resources. In this regard, wage insurance programs in the United States and Germany are a positive model for the future which encourage people to find new jobs, and employers to hire them. He encouraged drafters to re-formulate the report so that it could be used as a tool kit, or a reference guide, which countries could use to adapt to their own particular problems.

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NOT ALL SUNNY IN SWEDEN  
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19. Karolina Ekholm of the Stockholm School of Economics noted that the draft seemed to endorse a Swedish labor reform model, but she insisted that not everything in the Swedish model is good. On the positive side, she said that in Sweden, free trade, active labor market policies (ALMPs) and low open unemployment in spite of generous unemployment benefits significantly weakened protectionist pressures. Summarizing recent literature on the Swedish labor model, however, she said, that there was no clear evidence of a positive effect of ALMPs on efficiency of matching prospective job seekers with jobs. Subsidized employment seems to have some crowding out effects, while youth employment programs have strong crowding out effects. ALMPs also appear to have the effect of reducing geographical mobility.

10. Ms. Ekholm recommended that the drafters consider that unemployment compensation levels fall with the unemployment period and that ALMPs be used as a test of willingness to work. Why has Sweden apparently done so well in spite of the mixed result on labor market reform? Ms. Ekholm said that Sweden's emphasis on macro stability played an important role. She concluded with the observation that a slightly undervalued currency has been very helpful to Swedish industry, which generated a comment from the field that it was impossible for all countries in the world to have an undervalued currency.

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GETTING IT RIGHT IN THE ANTIPODES  
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11. Lisa Gropp of the Australian Productivity Commission spelled out Australia's recipe for recent structural adjustment success. She said the political

dimension had to be considered alongside the economic. General equilibrium modeling created the "bullet points" to inform the public of how much trade protection was costing them. A broad constituency of the export and import-competing sectors combined to press for reform of the non-traded sectors, including network industries, and of the labor market.

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SMALL STEPS IN JAPAN  
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112. Risaburo Nezu of the Japanese Research Institute of Economy, Trade and Industry showed data comparing the ease of entry and exit of hardware and software manufacturers in the United States with the relatively static picture in his own country. This was a great strength of the United States and a failing of Japan. On a positive note, he said the number of mergers and acquisitions have increased dramatically in Japan as a result of government policies. The gradual shift away from seniority-based salary increases and lifetime employment guarantees towards performance-based promotions and compensation was another positive development in Japan. He suggested that the draft focus more on adjustment in the high tech industry, but instead of talking about how to handle "adjustment" we should be looking for ways to enable "transformation".

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NO DIRIGISTE, HE  
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113. Patrick Messerlin of Paris's Sciences Po (the venue of Secretary Rice's February 8 speech) noted that the pace of structural change is a political choice. In the 1950s, he said, three million workers moved from the agricultural sector to the manufacturing sector with hardly a grumble. In the 1970s, by comparison, moving 600,000 workers from one manufacturing sector to another was practically impossible. On the proper sequencing of reforms, Mr. Messerlin recommended that goods and services markets be liberalized before labor and capital markets. Like the ILO speaker, he favored the Danish model, which had both rights and obligations -- he said the draft report focused too much on rights and not enough on obligations. With specific regard to compensation for structural adjustment, he said yes to compensating the small farmer, no to compensating the big farmer: in France large, industrial farmers have had 20 years to collect abnormal profits as a result of trade protection -- "they don't deserve any additional compensation".

114. Mr. Messerlin also recommended the abolishment of anti-dumping and countervailing duty laws around the world, saying these were just substitutes for safeguards. He made a pitch for changing the report to recommend that trade adjustment assistance be dropped, and adjustment assistance be made general, because it was often difficult to tell whether a worker lost his or her job as the result of trade liberalization or some other effect. Finally, echoing Ms. Kropp's intervention, he called for developing a "culture of evaluation" in Europe which would allow policymakers as well as the public to examine the costs and benefits of a particular action.

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THE WTO VIEW  
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115. Like Mr. Messerlin, Robert Teh of the World Trade Organization spoke at length on the abuse of anti-dumping and countervailing duties as a substitute for safeguards. He said that countries which use anti-dumping laws to handle structural adjustment issues undermine the credibility of the WTO. Mr. Teh also said that the draft study takes too benign a view of the role of preferential trade arrangements in managing adjustment problems. He noted that with complex rules of origin provisions, the level of protection often actually increases under these arrangements. He expressed ambivalence towards core labor standards. Only to the extent that they underpin labor market efficiency, he said, should core labor standards be adopted.

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